

DWR-SRF-P-02-Interest Rate Determination for Cities-09202020
Interest Rate Determinations for Cities and Municipalities

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EFFECTIVE DATE: SEPTEMBER 20, 2020

SIGNATURES:



 Jennifer P. Dodd, Director, Division of Water Resources



 Vena Jones, State Revolving Fund Program
 Drafter/Preparer

Revision Number	Date	Brief Summary of Change
3	9/20/2020	Updated ATPI and Interest Rate Determination
2	10/24/2019	Updated ATPI Index and effective dates

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1	1/01/2015	Updated ATPI Index and effective dates
0	1/01/2013	Issuance

PURPOSE: The Department is responsible for the management of the Clean Water (CW) State Revolving Fund (SRF) and the Drinking Water (DW) SRF Loan Programs. The Department is required to recommend to the Tennessee Local Development Authority (TLDA) an interest rate for all loan applicants. SRF makes interest rate determinations based on an Ability To Pay Index (ATPI), which indicates a community’s fiscal capacity and economic position coupled with SRF Base Rates, a market based interest rate calculated using weekly reports in the Bond Buyers Index.

SRF Determined Interest Rates will be scaled such that communities with lower ATPIs will have rates lower than the market rate and lower than communities with high ATPIs. Communities with high ATPIs will have rates at or near market rate.

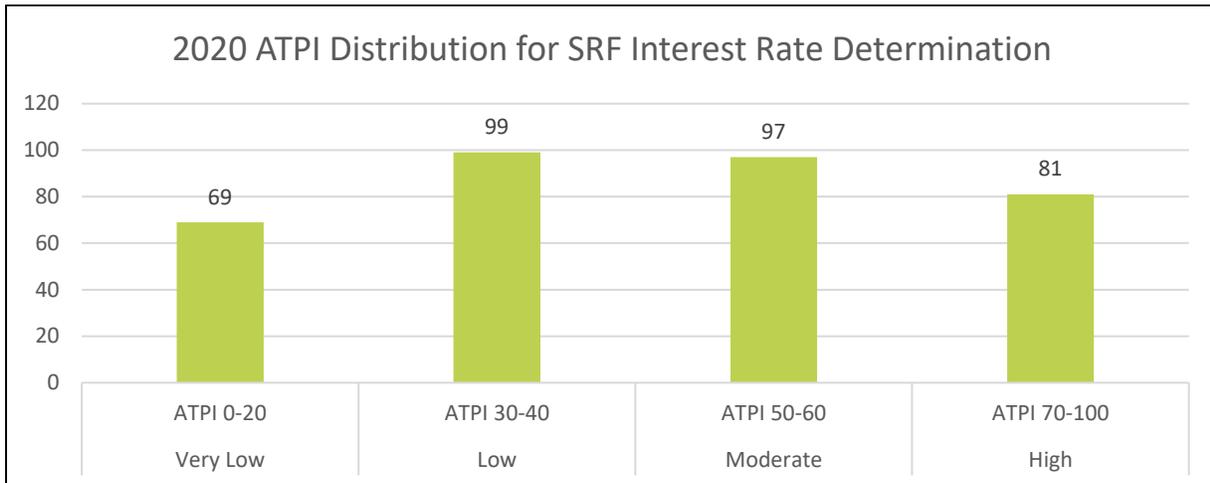
POLICY: The Department adopts the following criteria in developing an ATPI and recommending an interest rate for all city and municipality CW and DW SRF loan applicants:

1. The Department will utilize the most current Ability to Pay Index (ATPI). This index is developed in coordination with the University of Tennessee and published annually. The updated ATPI includes seven (7) variables, taken at the community level, to establish an Affordability Score. The Affordability Scores of all communities are totaled and normally distributed. The distribution is then assigned index scores ranging from 0 – 100 in intervals of 10. Communities with score of 100 are high ranking on the Ability to Pay Index. Communities with low ranking scores are considered economically distressed and deemed disadvantaged. The ATPI is required for administration of the SRF programs by the Water Resources Reform and Development Act (WRRDA) of 2014 (H.R. 3080).
2. The ATPI is coupled with the SRF Base Rate to determine the interest rate given to a loan recipient, SRF Determined Interest Rate.
3. To establish the SRF Determined Interest Rate, ATPI ranges are aggregated into four groups of communities with similar ATPIs. These groups are then assigned a fixed-percentage multiplier based on the corresponding ATPI range. Table 1 indicates the number of communities aggregated into groups with very low, low, moderate and high ranges of ATPIs.

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Table 1: ATPI Distribution for Setting SRF Determined Interest Rates



4. Fixed percentages are assigned to each ATPI range of values. These percentages are then multiplied against the SRF Base Rate to establish the SRF Determined Interest Rate. Communities with a high ATPI will have an SRF Determined Interest Rate that is 100% of the SRF Base Rate (Base Rate x 1.0). Communities with a moderate ATPI will have an SRF Determined Interest Rate that is 80% of the SRF Base Rate (Base Rate x 0.80). Communities with a low ATPI will have an SRF Determined Interest Rate that is 60% of the SRF Base Rate (Base Rate x 0.60). Communities with very low ATPIs will have an SRF Determined Interest Rate that is 40% of the SRF Base Rate (Base Rate x 0.40).
5. The SRF Base Rate is a market-based interest rate defined by the interest rates reported on the 20-year general bond index (GO 20 Index) and the Municipal Market Data General Obligation (MMDGO) yields published every Thursday in the Bond Buyers Index.
6. This policy supersedes DWR-SRF-02-Interest Rate Determination for Cities dated 10/24/2019. This policy shall apply to all municipal applications received by the Department on or after September 20, 2020.